

IRS News Release

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IRS Announces Pension Plan Limitations for 2007

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WASHINGTON -- The Internal Revenue Service today announced cost-of-living adjustments applicable to dollar limitations for pension plans and other items for Tax Year 2007.

Section 415 of the Internal Revenue Code provides for dollar limitations on benefits and contributions under qualified retirement plans. It also requires that the Commissioner annually adjust these limits for cost-of-living increases.

Many of the pension plan limitations will change for 2007. For most of the limitations, the increase in the cost-of-living index met the statutory thresholds that trigger their adjustment. For example, the limitation under Section 402(g)(1) on the exclusion for elective deferrals described in Section 402(g)(3) is increased from \$15,000 to \$15,500. This limitation affects elective deferrals to Section 401(k) plans and to the Federal Government's Thrift Savings Plan, among other plans.

Effective January 1, 2007, the limitation on the annual benefit under a defined benefit plan under Section 415(b)(1)(A) is increased from \$175,000 to \$180,000. For participants who separated from service before January 1, 2007, the limitation for defined benefit plans under Section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2006, by 1.0334.

The limitation for defined contribution plans under Section 415(c)(1)(A) is increased from \$44,000 to \$45,000.

The Code provides that various other dollar amounts are to be adjusted at the same time and in the same manner as the dollar limitation of Section 415(b)(1)(A). These dollar amounts and the adjusted amounts are as follows:

The limitation under Section 402(g)(1) on the exclusion for elective deferrals described in Section 402(g)(3) is increased from \$15,000 to \$15,500.

The annual compensation limit under Sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) is increased from \$220,000 to \$225,000.

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The dollar limitation under Section 416(i)(1)(A)(i) concerning the definition of key employee in a top-heavy plan is increased from \$140,000 to \$145,000.

The dollar amount under Section 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period is increased from \$885,000 to \$915,000, while the dollar amount used to determine the lengthening of the 5-year distribution period is increased from \$175,000 to \$180,000.

The limitation used in the definition of highly compensated employee under Section 414(q)(1)(B) remains unchanged at \$100,000.

The dollar limitation under Section 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan other than a plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over remains unchanged at \$5,000. The dollar limitation under Section 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over remains unchanged at \$2,500.

The annual compensation limitation under Section 401(a)(17) for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost-of-living adjustments to the compensation limitation under the plan under Section 401(a)(17) to be taken into account, is increased from \$325,000 to \$335,000.

The compensation amount under Section 408(k)(2)(C) regarding simplified employee pensions (SEPs) is increased from \$450 to \$500.

The limitation on deferrals under Section 457(e)(15) concerning deferred compensation plans of state and local governments and tax-exempt organizations is increased from \$15,000 to \$15,500.

The compensation amounts under Section 1.61-21(f)(5)(i) of the Income Tax Regulations concerning the definition of “control employee” for fringe benefit valuation purposes is increased from \$85,000 to \$90,000. The compensation amount under Section 1.61-21(f)(5)(iii) is increased from \$175,000 to \$180,000.

The limitation under Section 408(p)(2)(E) regarding SIMPLE retirement accounts is increased from \$10,000 to \$10,500.

Administrators of defined benefit or defined contribution plans that have received favorable determination letters should not request new determination letters solely because of yearly amendments to adjust maximum limitations in the plans.